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State Controller's Office
Information Technology Procurement Plan
21st Century Project HRMS

March 25, 2004

21st CENTURY PROJECT
INFORMATION TECHNOLOGY PROCUREMENT PLAN

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1.0 PROJECT DESCRIPTION

1.1 Project History

The State Controller's Office (SCO) is charged with the operation of the Uniform State Payroll System through provisions of Government Code Section 12470 et seq. This responsibility is consistent with the constitutional authority to issue warrants to pay the State's bills. As part of its payroll responsibility, the SCO maintains an official roster of state employees, used to ensure the accuracy of payroll. The roster includes all employment transactions on every employee, from 1975 to the present. This roster is augmented with personnel-related information needed by control agencies, including the State Personnel Board (SPB), Department of Personnel Administration (DPA), the Department of Finance (DOF), California Public Employees Retirement System (CalPERS), and the California State Universities (CSU). Data from the systems operated by the SCO are critical to the decision-making processes necessary to effectively use state personnel resources. The SCO is viewed today as the custodian of the majority of HR information available to state management.

The SCO, through the Personnel/Payroll Services Division (PPSD), pays 294,000 employees, for a payroll in excess of $14 billion per year. PPSD is responsible for issuing pay to employees of the State Civil Service, California State Universities, Judicial Council and judges, and elected officials. The State includes over 150 departments and 24 CSU campuses. To meet its responsibilities, PPSD operates large, complex legacy systems, all of which were developed by SCO employees. While there are interfaces between the various systems, they were designed as separate stovepipe applications and thus are not integrated, as well as including redundancy in procedural logic. Because of the design, the systems require point-to-point interfaces.

Replacing the State's employment history and payroll systems was one of more than 180 recommendations contained in an independent performance audit of the SCO by KPMG Peat Marwick, completed in May 1995. The purpose of the performance audit was to identify cost reductions and service improvements. With respect to the State's current systems, the audit found that the systems are obsolete and in need of replacement.

As a result of the performance audit, a Conceptual Vision Document was proposed and approved by representatives of the State's central agencies (Department of Finance, Department of Personnel Administration, State Personnel Board, California State Universities, etc.). The CVD provided detailed documentation of the fundamental business case for replacing the existing state-level Human Resources and Payroll Systems with a modern Human Resource/Payroll System.

During FY 2000-01, the 21st Century Project conducted an alternative procurement effort that resulted in a potential contract award for a new HR/Payroll System. However, during this time, the State encountered an economic downturn and looming budget

deficit. As such, funding for this effort was not allocated and the project was cancelled. All parties, including stakeholders, top level State administrators and executive decision makers continue to recognize the essential need to address the vision articulated in the Conceptual Vision Document.

1.2 Project Description

The functions within the scope of the project include Employment History, Payroll, Leave Accounting, Position Management, Benefits, Management Information and Timekeeping. Included within the scope of the functions are security, workflow, employee self-service, and management information (reporting). It is the State Controller's Office intent to purchase a commercial-off-the-shelf (COTS) software that will be implemented by a System Integrator (SI) with the assistance of State staff. Upon selection of the software and SI contractors, the system will be developed in phases, with Employment History, Payroll, Management Information, and Employee Self-Service (ESS) implementation occurring first. This will result in early development and implementation of the mission-critical systems most at risk, while allowing for some of the projected savings from ESS to occur early in the project.

The following opportunities will be addressed by replacing the State's existing systems with a COTS solution:

- Eliminate the risk associated with a potential failure of the current HR/Payroll Systems
- Provide State employees Employee Self-Service (ESS) capabilities
- Provide an automated Position Management System
- Provide an integrated Timekeeping System
- Provide electronic workflow processes
- Provide accessible Management Information and reporting tools
- Ensure that the State Controller's Office employs efficient business processes and provides leading-edge technology solutions to meet customer needs and fulfill the mission and vision of the State Controller's Office
- Modernize the State's existing HR architecture and information infrastructure
- Reduce support staff PY's within the Personnel Payroll Operations Branch of the State Controller's Office
- Leverages business improvements
- Provides savings in departments

1.3 Procurement Description

The SCO will undertake two procurements. The first Request for Proposal (RFP) will be to select a COTS Human Resource Management System (HRMS) software package.

Immediately following the selection of the COTS HRMS software, a second RFP incorporating the selected software contractor's proposal responses (including costs) will be issued for integration services. A COTS HRMS software package will be selected to replace the State's existing HR/Payroll systems and provide added/enhanced functionality. The SCO will select a HRMS software package which provides a modern, full featured, integrated solution to meet the statewide administrative functions of Employment History, Payroll, Leave Accounting, Position Management, Benefits, Timekeeping, as well as, critical reporting needs. The HRMS package is intended to entirely replace the existing State Controller's Office HR/Payroll systems. Following the COTS software selection the SCO will solicit proposals and select a SI to be the "prime" contractor responsible for integration, coordination, modification, customization, end-user training, installation, conversion, and implementation of the selected software product suite. The procurement approach is further defined in Section 3.0, Acquisition Methodology.

COTS HRMS/Payroll systems currently offer a variety of full-featured, integrated, customer-proven products with capabilities that are readily adaptable to California's HR and payroll needs with some modifications. These products are being successfully implemented as both statewide and departmental systems throughout the country. A number of California departments have already proposed, or have implemented systems, to satisfy their specific requirements for HR/Payroll information. A new statewide HRMS will potentially negate the need for redundant purchases of software packages in State agencies.

The new system will make use of the facilities and services offered by the Teale Data Center to ensure cost-effectiveness, reliability, and security. The RFP will include the technology platform to be used as a baseline for evaluation purposes. The COTS bidder can propose the most effective technical solution that is consistent with or equal to the technology platform identified by the Teale Data Center and the State Controller's Office to support the applications. Teale Data Center will review, provide input into proposed solution cost information, and approve the data center costs associated with the 21st Century Project.

The actual project costs, including the HRMS/Payroll software, System Integrator, state staff, and support dollars, as well as the final schedule, will not be known until after the completion of the SI procurement. Based upon the prior 21st Century procurement efforts, increased competition, assignment of more state staff, and revised implementation strategies, the overall development and implementation project costs are now estimated to range from $60 million to $90 million.

The procurement, development, and implementation on a project of this magnitude is a multi-year effort. It is projected that these efforts will require a five year contract period plus five years of maintenance and support which will commence once all application functionality has been delivered to the first roll-out group. Maintenance and support of the 21st Century Project System will include the application management as required by

the RFP. A transition period to the 21st Century Project System Application Management Team will occur before the start of the determined period. The transition period will be used to perform the 21st Century Project System's application management service planning – establishing support procedures, identifying service level measures and targets, providing additional training to the application management team, as necessary, etc. The following are projections for significant activities during the project lifecycle.

FY 2003-04	Release Software (SW) RFP
FY 2004-05	• Conduct SW discussions • Evaluate SW proposals • Select Software • Release System Integrator (SI) RFP • Conduct SI bidder discussions • Complete Business Case Benefits Study • Continue SI bidder discussions • Evaluate SI proposals • Select SI • Develop/submit SPR • Obtain SPR approval
FY 2005-06	• Award contracts for SW and SI • Begin Employment History/Payroll/ESS development • Continue Employment History/Payroll/ESS development
FY 2006-07	• Begin Position Management development • Rollout Employment History/Payroll/ESS
FY 2007-08	• Begin Position Management rollout • Begin Timekeeping and Leave Accounting development • Complete Employment History/Payroll/ESS rollout • Complete Position Management rollout
FY 2008-09	• Begin Timekeeping and Leave Accounting rollout • Complete Timekeeping and Leave Accounting rollout
FY 2009/10	• Begin maintenance period

2.0 MARKET RESEARCH

2.1 Informal Market Research

The primary objective of the informal market research is to examine various aspects and factors (e.g., costs, trends, procurement strategies, contractors, implementations, experience, functionality and features, partnerships) in purchasing a commercial-off-the-shelf (COTS) HRMS/Payroll system to replace the existing HR/Payroll systems. This market research supports the State Controller's Office findings relative to project cost, identifying suitable software contractor and system integrator candidates, as well as, using a two procurement methodology. Also, it provides a sampling of other related states and public sector projects.

Commercial-off-the-Shelf (COTS)
Market research findings provide a positive basis supporting the need to purchase a COTS system. COTS HRMS/Payroll systems currently offer a variety of full-featured, integrated, customer-proven products with capabilities that are adaptable to California's HR and payroll needs with some modifications.

For the State of California, replacing the existing HR/Payroll System will provide numerous opportunities to achieve business process improvements and, in turn, provide a tangible return on the investment. Further, it will allow the State to move from a transaction-based system to an enterprise resource planning system that supports the demands of management in the new information age environment.

COTS systems are being successfully implemented as both statewide and departmental systems throughout the country. Numerous states have purchased or are in the process of purchasing COTS systems to replace old legacy systems and to streamline processes. Attachment A provides a sampling of other states' COTS projects.

A number of California departments have implemented, or are engaged in independently implementing systems to satisfy specific HR business needs such as the CSU, Health Services, CalPERS, Judicial Council, DGS, Transportation, Health and Human Services Data Center, and Water Resources. Attachment A provides information on the Department of Water Resources's project. Without the implementation of the 21st Century Project, other California departments would also need to purchase software packages to satisfy their own departmental HR needs. A new statewide HRMS will eliminate the need for redundant purchases of software components/packages in State departments.

Research findings show that only a few software contractors can accommodate the size, complexity, and requirements for a new State of California HRMS and Payroll environment. Specifically, PeopleSoft, SAP, Lawson, AMS and Oracle are all viable software candidates with COTS systems that have been implemented for various

private and public sectors. The findings for the viable software contractors are validated by: 1) Gartner Group research, which ranks large-enterprise service contractors according to ability to execute and the completeness of vision, 2) Previous 21st Century project procurements and 3) Recent 21st Century Project contractor presentations, noted below. Attachment B provides specific contractor software information, their previous engagements and Gartner Group research about them.

Two Procurements

A Request for Proposal (RFP) procurement approach allows the State to satisfy its objectives and maximize the potential for project success through the most cost-effective and/or "value added" methodology. There will be two procurements in the approach, Procurement 1: COTS HRMS software package selection and Procurement 2: System Integrator (SI) selection. The selection of software, separate from the SI selection, will require contractors, both software and SI, to compete against each other; thus, creating greater competition.

The prior 21st Century Project procurement used a bundled/single procurement approach that limited competition to the software companies partnering with a SI. The single procurement approach excluded other SIs (which had implemented the software product) from competing. This approach did not provide the State the opportunity to individually evaluate/select the best software solution with the best SI.

To increase bidder competition and lower project costs, current market trends are gravitating toward using a two procurement approach. Other states, such as Pennsylvania, and Ohio (see Attachment A for details), have recently used or are currently using this same approach. The State of Arizona representatives stated that if they had to do it over again, they would have conducted separate procurements for the software and SI. Arizona learned that separate procurements would have provided a broader selection of SIs.

Research findings also show that there are several viable SIs to evaluate such as Accenture, Deloitte, IBM, Bearing Point, CSC, (see Attachment C for SI company information and past implementation experience with the different software products). These findings have been validated by: 1) Previous 21st Century project procurements; 2) Recent 21st Century Project software and SI contractor presentations: 3) Gartner Group information; and 4) Surveys of other large employers.

21st Century Strategies Learned

The following was learned based on informal market research and previous procurement experience:

- Business, administrative and technical requirements must be written and defined in such a way (not solution based) that supports a clear and concise understanding to all potential bidders. In return, this will provide a better cost estimate of the project and will shorten the development effort of system requirements.
- The evaluation criteria used to evaluate the software and SI must be defined to accommodate the specific procurement (Procurement 1: Software selection, Procurement 2: SI selection).
- The new system will make use of the facilities and services offered by the Teale Data Center to ensure cost-effectiveness, reliability, and security. The RFP for the software bidder will include the technology platform identified by the Teale Data Center and State Controller's Office and will, also, provide bidders the opportunity to propose their technical solutions. Teale Data Center will review, provide input into proposed solution cost information, and approve the data center cost associated with the 21st Century Project.
- It is to the State's advantage that the software contractor continues to provide an involvement or a "footprint" during the implementation portion of the project. The "footprint" will leverage the best knowledge base and experience to offer the State the most appropriate implementation solutions.

Software Contractor Presentation Findings

Several software contractors (SAP, PeopleSoft, Lawson, AMS, Oracle) were invited by SCO to participate in a software contractor presentation in May and July 2003. The presentation served several purposes. It provided staff a current understanding of the capabilities of software packages in the market and administrative and technical issues that should be included in the RFP. It also provided software contractors an opportunity to meet State staff involved in the project and to get a better understanding of current needs. The 21st Century staff learned that SAP, PeopleSoft, Lawson, and AMS (Oracle opted not to participate) are able to offer real-time, web-based systems. In addition, the following was provided from each participating contractor:

An overview of:

- Company and product
- Project experience
- Integrator relationships
- Implementation and interfaces
- A description of the typical technology platform that is used for HRMS application
- An analysis of the State's current platform
- Programming language used

- Security administration, levels of security

A demonstration of:

- A real time presentation of the functional areas of Personnel, Payroll, Benefits, Position Management, Timekeeping, Leave Accounting, Management Reporting, and Employee Self-Service
- How an initial action is entered, how it triggers a leave record, a payment, the establishment of a position, management information reports, data storage and display, how approvals are captured, etc.
- Retroactive change

System Integrator Presentation Findings

A total of nine SIs were invited by SCO and five accepted to participate (Accenture, IBM, Deloitte, Bearing Point, CSC) in a SI presentation in June/July 2003.

The SI presentation included:

- An overview of firm and services provided
- Project experience
- Integrator role and relationship
- Implementation and interfaces

The presentations provided staff a current understanding of the capabilities of SIs in the market. It also provided SIs an opportunity to meet State staff involved in the project. The 21st Century staff learned that several SIs have served as prime implementor for several different software packages.

Market Research Cost Information

Market Research proves that there are many factors that can potentially impact cost, such as, but not limited to: procurement approach, business needs and complexities, functionality, state government population, software and consulting market trends, financing cost and project timelines. While the costs of proceeding with a new procurement for a HRMS are significant, the State can minimize several identified costs (outlined below). Prior procurement experience and market research of other similar public sector implementations have provided a solid basis for estimating costs.

Open market bidding competition for the SI can bring down the cost of the project. There are many “leaders” in the SI field that could be viable candidates for the SI role. With the selection of the software separate from the SI, all viable firms could be eligible to participate in the process. Since the SI costs are the largest single cost item in the procurement, increasing competition for this part of the procurement would have a positive impact on overall costs.

The SI will represent up to 50% of the project cost, and will provide the expertise needed to make the project a success. In addition to the SI cost, there are several other cost factors that can affect the overall cost to the State:

- Business Process Reengineering opportunities and benefits
- Contract and payment strategies
- Extent of software modifications and customizations
- Hardware platform
- Implementation timeline

The 21st Century procurement efforts (2001) included Employment History, Payroll, Employee Self-Service, Position Management, Leave Accounting, and Timekeeping functionality. As part of this suite of systems, a full management information capability would have been built into the products. This previous procurement effort is the best information available for a cost estimate of this project. One-time cost bids ranged from $83 million to $88 million. These figures included costs for software, training, database conversion, contractor staff, and state staff. Contractor staff costs ranged from $54 million to $64 million. The costs could be impacted by inflation, a change in the procurement strategy, including additional functionality and improvements in the COTS capabilities. Another item that could impact the overall cost is the strategy being adopted to amortize the cost of the project over 7-10 years.

Prior procurement experience and market research of other similar public sector implementations have provided a solid basis for estimating costs.

While the costs of a new a HRMS are significant, the State can minimize costs “up-front” through procurement and negotiation strategies.

- The State will defer costs until actual implementation when savings and cost avoidance are realized. Additionally, payments can be spread over a period of time longer than the development/implementation period.
- The State will use a two procurement approach. The two procurement approach creates open market competition and as such, the most competitive bidding.
- User licenses will be purchased based on system implementation roll out strategy.
- Contracts will be crafted and negotiated with both contractors to minimize risk.
- Customizations of software will be minimized and special emphasis will be placed on modification design to reduce newer version costs.

3.0 ACQUISITION METHODOLOGY

The State Controller's Office has chosen to use a Request for Proposal (RFP) process to replace the State's existing HR/Payroll systems including Employment History, Payroll, Leave Accounting, Position Management, Benefits, Management Information, and Timekeeping with a commercial-off-the-shelf (COTS) software. Past experience with the two previous attempts to purchase a COTS software solution further substantiates the approach that such a procurement offers the State a solution with the best combination of value and cost. Information gathered through efforts to stay abreast of industry trends and other procurement efforts also support this approach to evaluate and recommend the most viable procurement option for the selection and purchase of new HRMS software and system integration services.

This approach allows the State to satisfy its objectives and to maximize the potential for project success through the most cost-effective and/or "value added" methodology. Using a COTS solution is considered the most viable approach at this time. The alternatives are to outsource HR/Payroll or build a custom system. Outsourcing is not considered a viable option for an employer the size of California. In reviewing the industry, we were able to find a few examples of employers in the 300,000 employee range that have taken this approach. The only state that used this alternative, Florida, only outsourced the HR function, but retained payroll in house. Most large employers believe outsourcing is not in the best interest of their company/government organization. The other alternative, a custom solution, is not viable due to costs, lack of resources, the time required, potential for failure, and the lack of skill sets.

The RFP approach was selected because it is the most suited for business needs that offer a unique challenge. With this type of procurement, the State works with potential contractors to define and develop a proposed solution through a collaborative examination of requirements, options, and tangible benefits associated with the overall solution. Thus, the State and the selected contractors would assume common goals and incentives that would result in benefits and/or decreased costs for the State.

The RFP approach process will allow major system contractors (both software and system integrator) the opportunity to offer solutions that meet the State's business and management needs. Recent significant changes in technology, HR, and payroll applications make it possible to identify available systems to meet a large percentage of the State's business needs. The 21st Century Project recognizes that due to the complexity of the HR and payroll processes, the COTS HRMS software will require modifications and customizations.

The procurement strategy encompasses two procurements. Refer to Attachment D, 21st Century Project Solicitation Overview for a diagram of the procurement process.

Procurement 1:

The evaluation and selection of a COTS software suite that best meets the State's administrative functions of Human Resources, Payroll, Leave Accounting, Position Management, Benefits, Timekeeping, and critical reporting needs.

The software bidders' proposal components include: software, software licenses, annual maintenance fees, project team software training, technology architecture, modifications to the standard COTS software, customizations residing outside the standard COTS software, and the software bidder's footprint (i.e., involvement in the integration phase).

This procurement will result in two contracts with a single software bidder.

- The State will sign a contract with the selected software bidder that will include of the above proposal components, the purchase of the software, software licenses, annual maintenance fees, and the cost of project team software training. In addition, in the software contract, the State will require the selected software bidder to guarantee their business and technical solution. The final contract between the State and the selected software bidder will be signed at the same time a contract is signed with the selected SI.

- The selected software bidder will be required to sign an interim contract to bind them to their proposal and costs in Procurement 1. The interim contract will also require the selected software bidder to work with all SI bidders using a standard format to provide information concerning the software proposal during the development of the responses to the SI RFP. This will ensure that all SI bidders have equal access to information needed for the procurement. The software bidder will be compensated for the work with the SI bidders.

The selected software bidder will be precluded from bidding the "prime" role as the System Integrator in the second RFP (Procurement 2).

The selected software bidder's entire proposal responses from Procurement 1 will be incorporated into the second procurement RFP.

Procurement 2:

The evaluation and selection of a SI as the "prime" for implementation of the entire solution.

Elements of the selected software bidder's proposal will be incorporated into the SI RFP. They include:

- Selected software bidder's business solution (i.e., architecture and performance, modifications to the standard COTS software, customizations residing outside the standard COTS software and configuration). In the software contract, the State will require the selected software bidder to guarantee their business and technical solution. The SI may submit an alternative response to the software bidder with respect to customizations.

- Selected software bidder's footprint.

- Selected software bidder's costs.

The SI bidders' proposal components include: execution of the solution, interfaces, data conversion, testing, quality assessment, project management and other items, as necessary, for the implementation of the entire solution.

The selected SI as the "prime" will sub-contract with the selected software bidder for configurations, modifications, customizations, and all other software bidder responsibilities (other than training proposed by the software contractor, software, software licenses and maintenance fees).

Specifically, selecting a COTS HRMS software package, in the Procurement 1, offers greater focus in evaluating the software's stand-alone capability to meet the State's business needs. Further, by selecting the software separate from the integrator, software bidders will be forced to compete directly against each other rather than as part of a larger contract.

The procurement of the SI services, in Procurement 2, would primarily focus on evaluating the SI's expertise with the software, prior implementation efforts, and the firm's ability to implement the State's requirements. The contract with the SI would be designed to establish responsibility and accountability for meeting the business needs of the State. This would be accomplished by including in the SI contract the bid response of the software contractor for the business requirements of the State. Independent consultants will provide assistance, as subject matter experts, to the State's evaluation team regarding the SI's proposed solution with the selected software.

The procurement to solicit an SI would, likewise, provide greater bid competition. Rather than aligning one SI with a software product, which is typical of a bundled procurement,

the State will benefit from greater competition among SIs. This represents a potential for far greater cost savings, as the SI is a significant cost factor within the project.

In the two previous procurement efforts the competition was limited as the software companies partnered with a system integrator to the exclusion of other integrators that have implemented the software product.

A Request for Qualifying Information (RFQI) evaluation process has been utilized to pre-qualify the software contractors (Procurement 1) and will also be utilized for the System Integrators (Procurement 2).

Both Procurements require a Request for Proposal (RFP). The RFP method was selected for the following reasons:

- California Multiple Award Schedule (CMAS) contracts are limited to $500K.
- Master Service Agreement (MSA) contracts for over $500K requires an exemption. MSA exemptions for technology projects will expire in December 2005. Extensions to the MSA contract may not coincide with the project implementation time line.
- The State's replacement of the existing HR/Payroll System is a multi-year effort that requires in-depth participation of the State and bidders during the procurement process.

The two RFPs will provide the opportunity for an open, competitive procurement that delivers the best value to the State. A procurement specialist from the Department of General Services (DGS) will coordinate the procurement process for both Procurement 1 and Procurement 2, including the advertisement of the RFP. In Procurement 1, bidders will present their software applications and how their solution will meet the State's business requirements. In Procurement 2, system integrators will present their qualifications to implement the selected software.

The solicitation will be structured using a draft and final proposal methodology with confidential discussions prior to and after the draft submission.

The DGS will be actively involved throughout the procurement of the HR/Payroll System. A DGS procurement specialist will serve as a member of the project team to ensure that all procurement guidelines are followed and that the procurement is conducted fairly and equitably. In addition, periodic meetings will be held with representatives of Department of Finance, Technology Investment Review Unit, to keep them apprised of the direction and progress of the project.

The RFP process will be carefully managed to ensure competition and fairness. The basic principles of competitive bidding that will be followed include:

- The RFP will provide a basis for full and fair competitive proposals among bidders on a common standard, free of unnecessary restrictions tending to stifle competition.

- The RFP will be written to provide an environment where all competitors are proposing on the same end objectives.

- Valid proposals must respond and conform to the RFP, including all documents that are incorporated therein. A proposal that does not literally comply may be rejected.

- A proposal, which deviates materially from the requirements specified in the RFP, cannot be accepted. A material deviation is one that is not in substantial accord with one or more RFP requirements, provides an advantage to one bidder over others, or has a potentially significant effect on the delivery, quantity, quality, amount paid to the bidder, or on the cost to the State.

- The SCO has the express right to reject any and all proposals in the best interest of the State. A proposal cannot, however, be selectively rejected without cause.

- A proposal cannot be changed after the time designated for receipt.

- A competitive proposal, after the time designated for receipt, is in the nature of an irrevocable offer and a contract right of which the public agency cannot be deprived without its consent, unless the requirements for recision are present.

- The proposal must, however, be accepted within the time specified in the RFP.

- A proposal, after the time designated for receipt, cannot be accepted "in part" unless the RFP specifically permits such an award.

- “Best and final” provisions per Public Contract Code 6611 is pending the development of process rules by Department of General Services, Procurement Division.

- A contract entered into through the competitive bidding process cannot later be amended, unless the RFP includes a provision, to be incorporated in the contract awarded, providing for such amendment.

After a final selection of an SI has been made and prior to contract award, a Special Projects Report will be prepared and submitted to the Department of Finance for approval.

If the project is approved, two contracts will be awarded: one to the selected software contractor and the other to the selected SI. Payment will be based on performance-based deliverables. Based on the delayed payment schedule, requirements stated in the RFP

must be met prior to payments being made. The contractor will be expected to fund the project, as the State will be spreading costs over an extended period that will be longer than the development and implementation timeframe.

The selected contractors will be managed through a State contract document that will tie together the requirements of the RFP and the contractor's proposal response. Acceptance criteria will be prescribed in the RFP. The contract and attachments will provide for payments after acceptance of deliverables by the State based on the funding strategy adopted for the project.

Organizationally, it is proposed that the project will have an Executive Steering Committee to act as the governing authority for guidance, advice, consultation, policy decisions, and overall project direction. The proposed committee will be comprised of the State Controller, the Director of DPA, the Chancellor of the CSU, the Administrative Director of the Courts, Teale Data Center, Judicial Council, and a member of the California Information Technology Commission. This committee, also, provides information as necessary to other governance entities both within the State Controller's Office and externally to the State's Information Technology Board that is being established by SB 791.

A more detailed description of the total project organizational structure is available and will be provided in the RFP.

The 21st Century Project will retain consulting and independent oversight/verification and validation services to provide assistance, guidance and direction for various tasks, events and procedures. The following Contracting Matrix provides detail for each service.

Contracting Matrix

Acquisitions	RFP	MSA or CMAS	Estimated Contract $Value	Start & End Dates
Consulting Services				
• Project Planning Consulting		X	$ 76,000	FY 2004/05
• Assist in managing project workplan, reviewing SI bids, and transitioning to SI PMO.				
• Facilitate project status meetings and document meeting minutes				
• Act as liaison to project office and others				
• Maintain files according to record management specifications				
• Maintain all project communications and standards				
• Gather, analyze, evaluate and correlate data to prepare reports				

Acquisitions	RFP	MSA or CMAS	Estimated Contract $Value	Start & End Dates
• Procurement Specialist		X	$ 150,000	FY 2003/04
• Provide oversight to identify and ensure the appropriate procurement documents are submitted to control agencies.				
• Provide monthly status reports that include project status, risk, issue identification and mitigation efforts, and accomplishments.				
• Review Procurement Plans for compliance with the activities required by DOF, TOSU.				
• Provide direction and assistance with RFQI				
• Provide direction and assistance with RFP documentation and processes				
• Provide direction and assistance with bidders' discussions				
• Assist with bidder evaluations				
• Provide consultation and assistance with bidders' contracts				
• Provide direction and assistance with SPR				
• Business Case Study		X	$ 147,000	FY 2003/04
• Liaison between end users and the SCO/PPSD and DPA				
• Conduct user surveys and on-site consultations with end users to identify potential business processes with potential cost savings				
• Work with end users to identify business practices/processes that should be changed and pursue the adoption of these proposals				
• Identify, document and cost current business processes				
• Make presentations to executive levels and stakeholders regarding project status				
• Validate business process improvement opportunities and associated benefits resulting form new system implementation				
• Document savings based on new technology				
• Vendor Oversight/Specialist		X	$ 77,000	FY 2004/05

Acquisitions	RFP	MSA or CMAS	Estimated Contract $Value	Start & End Dates
• Participate in SI bidders' discussions				
• Provide assistance with software testing scenarios for product demonstrations				
• Provide assistance, as subject matter expert, to the State's evaluation team of proposed solutions for the selected software				
• Provide review and verification of SI ability to work with selected software				
Oversight Services				
• Independent Project Oversight/IV&V	X		$ 4,691,000	FY 20004/05-2008/09
• Provide monthly Project Oversight and Quality Assurance (POQA) reports to the Project Executive and the executive sponsors				
• Review and assess overall implementation methodology and provide recommendations (if and where appropriate) to enhance the current methodology				
• Report on a continual and timely basis areas of concern to Project Executive, Project Manager, and the Executive Sponsors Committee				
• Evaluate the process to deliver project deliverables and project output for validity, completeness, conformance to the RFP, and known user needs				
• Document progress against plan and objectives and include in the QA findings				
• Ensure compliance with requirements for project				
• Perform risk management including risk assessment, analysis, mitigation strategies, and establishment of risk database				
• Oversee Project Plan throughout procurement and project				
• Review project activities to ensure they are completed within the estimated schedule and cost				
• Report status, findings and recommendations to DOF				
• Assure project management methodology is being followed and appropriately managed.				

21ST CENTURY PROJECT
INFORMATION TECHNOLOGY PROCUREMENT PLAN

Acquisitions	RFP	MSA or CMAS	Estimated Contract $Value	Start & End Dates
Software Product & Implementation				
• Software	X		$13,921,111	FY 2004/05-2009/10
• Application software and licenses				
• Application and development Training				
• Maintenance and Support				
• System Integrator	X		$55,604,092	FY 2005/06-2009/10
• Customizations, Implementation Tasks				
		Total:	$74,719,203	

Procurement Schedule

ACTION	DATE
1. Submit BCP for FY 2004-05	09/2003
2. Issue Request for Proposal for Software	05/2004 *
3. Review Draft Proposals	07/2004
4. Select Software Contractor	10/2004
5. Issue System Integrator RFP	11/2004
6. Review Draft Proposals	01/2005-02/2005
7. Complete Business Case Benefits Study	12/2004
8. Select System Integrator	05/2005
9. Submit Special Project Report to DOF and DGS	06/2005
10. Sign Contracts	07/2005

* Since the initial submission of the FY 2004-05 Finance Letter, the estimated release date for the Software RFP has moved to mid-May 2004. The completion of the procurement has not been adjusted due to expectations that the vendor pool may be reduced as the procurement process evolves and as such, time may be recovered.

Small Business and Disabled Veteran Business Enterprise Goals

The procurement process will meet all applicable small business and DVBE requirements as specified by the Department of General Services (DGS).

Evaluation Factors and Standards Criteria

The evaluation process is a multi-step process to determine the responsible and responsive proposal that offers the "best value" to the State. The best value is the proposal that meets all requirements and offers the State the best combination of value and cost as determined through the evaluation process.

The State will establish an Evaluation Team, comprised of individuals selected from State management and staff that will be responsible for the review and evaluation of bidder proposals. The Evaluation Team will decide which proposal offers the best value to the State through the methodology prescribed below.

The following information contains the Evaluation Factors and Values to be used to evaluate and establish the best value to the State in the software and system integrator procurement.

Software Evaluation Factors

- Business: Fulfillment of all business requirements within the standard COTS software product or through modification/customization.

- Administrative: Plan for administering the software, change management, controlling new software releases, patch version control, project team training, and bidder staffing experience/skills.
- Technical: Compliance and degree of responsiveness to technical requirements including but not limited to: State Strategic Direction, Productive Use, System Performance, Technical Architecture, Development and Administration Tools, Application Architecture, Services (e.g., Presentation, Data Access, Workgroup, Web, Communication, Object Management, Distribution, Security), System Access, Help Desk, Application Software, and Change Control and Configuration Management.
- Procurement: Compliance with the Department of General Services (DGS) procurement requirements.
- Cost: Validation of costs, cost of ownership, and cost effectiveness.

System Integrator Selection Evaluation Factors

- Business: Implementation of all required business functionality and interfaces whether within the standard COTS software product, with modifications to the standard COTS software product or through customizations and project management services and tools.
- Administrative: Plan for administering the software, change management, controlling new software releases, patch version control, project staffing plan, and bidder staffing skills/experience.
- Technical: Proven capability in the implementation, adaptation, and management of the selected COTS software product.
- End User Training and Conversion.
- Procurement: Compliance with the Department of General Services (DGS) procurement requirements.
- Cost: Validation of costs, total cost of ownership, and cost effectiveness.

The evaluation process has many components. A brief description of the components and their use in the evaluation process is provided below.

1. <u>Point Structure</u>
   The evaluation point structure will be based on 50% for cost and 50% for the proposed solution. The evaluation point structure for the proposed solution will be distributed among the administrative, business, and technical requirements

2. <u>Points</u>
   A maximum point score (20,000), for each procurement, will be split between cost and the proposed solution evaluation factors. The business, technical, and administrative categories will be assigned 50% of the total points, and 50% of the total points will be assigned to Cost Assessment.

3. <u>Responsiveness</u>

For business, administrative and technical related categories, each requirement will be evaluated based on how well the bidder's response meets the requirement. Requirements will be categorized as either 'required' or 'desirable.'

- Required - All proposal items or sub-items that include the word 'must,' 'shall,' or 'will' are considered 'required' and will be scored as Pass or Fail. Zero points will be awarded for either a Pass or Fail. Failure to meet a 'required' proposal item or sub-item may be deemed a Material Deviation resulting in the COTS Software Bidder's disqualification.
- Desirable – Desirable attributes have been defined for each Administrative and Technical Requirement sub-section. The COTS Software Bidder's response will be evaluated and scored based on whether the defined desirable attributes specified in each Administrative and Technical Requirement sub-section are met. Points awarded will be based on the sum of the point value for all 'desirable attributes' met.

The bidder with the highest score will receive the maximum points and all other proposals will be awarded a proportionate number of points as shown below.

$$\frac{\text{Bidder Evaluation Assessment Score} \times 10{,}000}{\text{Highest Bidder Evaluation Assessment Score}} = \text{Bidder Evaluation Score}$$

1. Scoring Process

The software solutions and system integrators will be examined and evaluated against evaluation standards based on the responsiveness levels defined above. The following are models of the evaluation standards that will be used for business, administrative, and technical requirements. The focus of the software will be the ability to meet business needs, while the system integrator will be examined for its ability to configure/customize and implement the software as required.

Administrative/Technical

Administrative and Technical requirements will be evaluated as either Required or Desirable.

Evaluation Standard	%/Points
• Required: Evaluated based on whether the proposal item or sub-item that includes the word 'must,' 'shall,' or 'will' is met. Failure to meet a 'required' proposal item or sub-item may be deemed a **Material Deviation** resulting in the COTS Software Bidder's disqualification.	Pass/Fail
• Desirable: Evaluated based on whether the defined desirable attributes specified in each Administrative and Technical sub-section are met and awarded a percentage of the maximum total points available based on the following:	
1. If all desirable attributes are met, 100 percent of the maximum total points available will be awarded	100%
2. If not all desirable attributes are met, the percentage of the maximum total points awarded is determined as follows: $\frac{\text{Sum of point value for all desirable attributes met}}{\text{Maximum Total Points}}$	1 – 99%
3. If none of the desirable attributes are met, zero points will be awarded.	0%

Business

Business requirements will be evaluated based on the bidder's self evaluation standards as follows:

Evaluation Standard	%/Points
Requirement is fully provided as a standard feature of the "out of the box" software and can be configured to the State's requirements through the delivered base software tools.	100
Requirement is provided through a modification to the base software. The bidder has agreed to include the delivered modification in all the subsequent releases of the base software.	90
Requirement is provided through custom development and pre-defined, supported customer exits (location of exit/entry is known) and no impact to future versioning of the base software.	50
Requirement can be provided through custom development and no pre-defined, supported customer exits.	25

1. Cost Assessment

The cost assessment is the total cost to the State and includes both bidder and State staffing costs, total operating cost to the State including both one-time and continuing costs, hardware and software, and staff training.

Each bidder's cost score will be based on the ratio of its total cost to the total cost associated with the lowest responsive proposal multiplied by the maximum number of cost points (10,000), as shown below.

$$\frac{\text{Lowest cost assessment}}{\text{Bidder Cost Assessment}} \times \text{maximum points (weight)} = \text{Bidder Cost Score}$$

4.0 PROCUREMENT RISK MANAGEMENT

The Risk Management process is highly dynamic and an ongoing effort of identification, classification, assessment (likelihood, impact), action (including developing contingency plans), and reviews. Generally speaking, the 21st Century Project risks fall into the following major categories:

- **Environmental Risks:** These include broad economic issues in addition to changing public and specific constituent responses to program initiatives and outcomes
- **Business Risk:** Department-specific risks including people, retention, operations and productivity issues, management continuity and support, contractor and constituent actions, offender lawsuits, and continued pressures for immediate cost reductions
- **Project Risks:** These include project timing, resource availability, cost, quality, interdependency, and scope considerations

The 21st Century Project Management considers Risk Management an integral activity to each component of the project management methodology that will be followed by the project. Therefore, the 21st Century Project Management will use two vehicles for oversight services: 1) a Master Service Agreement (MSA)/Request for Offer (RFO) for Procurement Oversight consulting services to assist with the software procurement compliance activities and 2) a Request for Proposal (RFP) for Project Oversight/Independent Verification and Validation consulting services to assist with Risk Management activities. Additionally, the 21st Century Project will use the DOF risk management and escalation procedures as outlined in the Information Technology Oversight Framework , which requires at a minimum, risk analysis, risk action planning and tracking and risk escalation. The project will also incorporate standard industry best practices regarding risk identification, risk response planning, qualitative risk analysis, quantitative risk analysis, and risk management planning.

Risks and issues associated with the split procurement approach have been identified by the DGS and the SCO. Both agencies recognize that any procurement includes risks and potential issues, but that different risks and issues are associated with a split procurement than with a bundled procurement. To ensure that these items are addressed, the risks and issues with this approach and the mitigation efforts associated with the risks are included in Attachment E, 21st Century Project Risk Mitigation Matrix. These risks will be incorporated into the project's risk mitigation plan.

By taking a proactive approach to Risk Management, the likelihood of an event or action occurring that would result in a negative impact on the project can be decreased significantly. This approach includes:

- Encouraging proactive management rather than reactive management

- Implementing steps to reduce or control risks
- Planning contingencies to mitigate consequences of risks

Refer to FSR, Section 7 which provides the guidelines the 21st Century Project will use to identify, manage and mitigate all project risks.

Schedule for Obtaining Funds

A Finance Letter for FY 2003-04 was submitted and approved by DOF. The requested funding is included in the May Revise. Additional funding will be required to complete the HR/Payroll project. The overall funding plan for the project is included in Section 8 of the FSR.

Funding Strategy
The funding approach proposed for the 21st Century Project requires **no additional general fund dollars** for the first 36 months of the project. FY 2003-04 efforts will be funded through increased reimbursement dollars. Funding for the next two years of the project is proposed to be a combination of reimbursement dollars as well as front-loaded transaction fees assessed to special/federal funds.

Historically the general fund has fronted the costs for development of statewide central administrative systems. The state's pro-rata process for reimbursing the general fund provides for formula changes commencing two years later. Due to limited general fund availability, this project proposes to charge the special and federal funds their portion of the system costs at the beginning of the project. The special and federal funds will only pay their portion of the total project cost. The general fund will then start to pay its portion 37 months after project initiation. Each funding source will ultimately pay for approximately 50% of the project costs, consistent with the split of costs for State personnel.

In an effort to equalize the project costs, agreements will be negotiated with the SI to finance the project development costs over a 9-year time period, with the majority of costs amortized over the final seven years based on a per payment assessment. Special/federal fund assessments will occur up-front, and will cease once their fair share cost of system replacement has been achieved. Likewise, payment fee assessments for general funds will be amortized downstream during the final seven years of the project, and will cease once the cost of the system replacement has been paid.

Funds for FY 2003-04 will primarily come from either:

1. An increase in various service fees that the SCO charges for its services in programs receiving support from the existing HR/Payroll processes, or

2. A transfer of existing authority levels

Program	Amount
Deduction Services	$368,000
Data Requests	$39,000
User Paid/Correct & Duplicate W-2s	$50,000
Retroactivity	$300,000
California Leave Accounting System	$114,000
Management Information Retrieval	$165,000
TOTAL	**$1,036,000**

The actual project costs, including the HRMS/Payroll software System Integrator, state staff, and support dollars, as well as the final schedule, will not be known until after the completion of the SI procurement. Based upon the prior 21st Century procurements, increased competition, and revised implementation strategies, the overall development and implementation project costs are now estimated to range from $60 million to $94 million. The greater number of state staff assigned to the project versus contractor staff will significantly affect the final project cost.

Currently, general fund and special/federal funds each account for approximately 50% of the expenditures; thus, each funding category would be responsible for 50% of the project's non-reimbursement supported costs. The only project costs that can be amortized over 9 years are those associated with the SI's and software costs. Cost for the state staff and support need to be funded on a current basis. It is important to keep in mind that the special/federal funds will only pay up to 50% of the total project costs.

Assessments for funding for the project from special non-governmental and federal funds are on a per payment fee starting with FY 2004-05. Funding for FYs 2006-07 and beyond are obtained through a combination of continuing reimbursements and redirects, special fund and federal fund assessments, and a per payment fee for general funds. In order to lessen the financial impact, it is apparent through discussions with various contractors that costs can be contractually spread out over a number of years. Costs for the majority of the project could be amortized downstream for seven years. Bidders will be asked to submit financing approaches with their respective bids.

Protecting the State's Investment during the Term of the Contract

The procurement process will impose significant contractual commitments on the software system contractor and primary system integrator to ensure that the resulting system meets the State's needs.

- The bidders will agree to fixed bid contracts with payments made based on a predetermined funding plan and the acceptance by the State for deliverables.

- The SI will be required to supply the State with a performance bond to ensure that all of the contract requirements are met.

- Contract requirements will include contractor support for a comprehensive acceptance test by the State. Payment for the software will be tied to State acceptance of the system. The contractor will agree that acceptance of predetermined deliverables will not occur until the subsequent implementation phase of the project.

- The software contractor would be responsible for adapting to new technology or enhanced functionality via version upgrades rather than IT development efforts.

- Source code for all contractor dependent software that is critical to the operation and maintenance of the system (and has no commercially available alternative) whether developed or installed will be provided to the State or placed in escrow. In the event the contractor ceases to do business or discontinues product support in the future, the State can have possession of all source code for their business solution. The State will be able to access this escrow account without notification.

5.0 CONTRACT MANAGEMENT APPROACH

The 21st Century Project Contract Manager (to be hired prior to contract award) will be responsible for administering the terms and conditions of the contract and monitoring the contractor's performance. The responsibilities of the Contract Manager may include administrative tasks ranging from request of contract services through the performance and final payment for completed services. Additionally, the Contract Manager will work with the SCO's Contract and Procurement Section to establish and maintain processes for invoices processing, reporting contractor deficiencies, contract changes and amendments and contract closeout.

The Contract Manager has a multi-level focus in serving as a liaison with numerous entities such as: the State's Project Managers (i.e., Business and Administrative and Information Technology), the Contractor's Project Managers, SCO Accounting, Contract and Legal staff, and DGS Legal staff. The Contract Manager's interface with such entities is critical in that it can affect the way both contractor and State interact with the project. The Contract Manager must balance the needs of the project, the State's legal and administrative requirements, and the legitimate interests of the contractor. Additionally, the Contract and Project Managers, team and contractor will work together to develop a Contract Management Plan, Status Reporting Process, Issue Resolution Process and Deliverable Acceptance/Approval Process.

The Contract Manager will assess compliance and conformity with pre-award and post-award documentation. Specifically, the Feasibility Study Report's (FSR) objectives and proposals, the Information Technology Procurement Plan's (ITPP) approach and methodologies, and the Request For Proposal's (RFP) Standard Agreement provisions and requirements, along with the contractors' proposal response must corroborate with the contract and riders and payment provisions.

Due to the size and complexity of the 21st Century Project, it is critical that contract provisions are closely monitored. This will ensure that, based on the incremental delivery of the new business capability, services are performed according to the quality, quantity, objectives and timeframes and the manner specified in the contract and riders. In addition, it will ensure that all work is completed and accepted by the State before the contract expires. Acceptance criteria will be prescribed in the contract and riders of the RFP. The contract and riders will provide for payments after acceptance of deliverables by the State and based on the funding strategy adopted by the project.

In support of monitoring contract provisions, a process and a file/data base will be developed and established to effectively track and assess contract provisions. Specifically, contract provisions will be tied to the Project Plan's deliverables and milestones, the responsible manager(s) on either the contractor or State side, and the corresponding due dates. Further, the Issues Management Log will be linked to the appropriate contract provision and correlating Project Plan elements. With this process and tools in place, the Contract Manager would know in advance to communicate with

the appropriate Project Managers of an impending or potential problem(s). This structure would support not only the efficient monitoring of contract provisions but also the management of the problem/resolution process to ensure the project is on time and within budget.

Contract issues and resolutions report will be part of the overall project reporting structure. The Issues Management Log, the weekly status meeting and report and bi-weekly project performance report to management will ensure any contract issues and their resolutions are identified.

Invoices will be reviewed for accuracy and completeness to substantiate expenditures for work performed, to prevent penalties from being assessed and to verify that all requirements of the contract are fulfilled before approving the final invoice. In conjunction, contract expenditures will be tracked and assessed. This activity will ensure that sufficient funds are available for services rendered as required by the contract and riders, to ensure the contract is encumbered in conformance with the SCO's policy, to identify low spending levels and, as a result, determine the necessity of partial dis-encumbrance and reassignment of funds.

Any contract changes or amendments will follow the DGS procurement directives regarding degree of specificity, timeframe, level of authority approvals, circumvention of competitive bidding process, standard forms to be used, amount changes, and process for "striking" out contract terms.

Deficiencies and problems with the contractor's performance will be fully documented and retained as part of the contract file. Specifically, the contractor will be notified in writing by certified mail stating: the reasons performance was deemed unacceptable, the corrective action the contractor must take, and the specified timeframe in which the work must be performed at a satisfactory level. Further, the notification will inform the contractor of the consequences if the problems are not corrected or the performance does not satisfactorily improve (e.g., payment holdback, liability of additional costs, termination of contract).

All related contract documentation will be maintained for historical purposes for three years after the final payment under the contract using DGS's guidelines for record keeping. Specifically, the project file will include documentation of: specifics on activities related to the contract, all invoices, all administered contracts, spreadsheets of expenditures, notification to the contractor of the start date, any correspondence or communication with the contractor, performance or non-performance of the contractor, the closing out of the contract and the evaluation of the contractor using a standard form.

The Procurement Oversight Contractor (to be hired before procurement of software) and the Project Oversight Contractor (to be hired before procurement of SI) will also support the State's Project/Contract Managers in terms of monitoring the State's project

responsibilities and deliverables, as well as, the contractor's responsibilities and deliverables. The Procurement and Project Oversight Contractors may perform the following activities on behalf of the State:

- Ensure submission of appropriate procurement documents to control agencies.
- Review Procurement Plans for compliance with activities required by DOF, TOSU.
- Review of deliverables.
- Verification of test results, staffing, contractor activity in accordance with the proposal and plan, and schedule and progress report accuracy.
- Validation of certifications by contractor, validation of cost results and validation of claims submitted to the 21st Century Project.
- Oversee all contractors and State staff for compliance to the Contract and Project Management Plans.
- Timely issue resolution and sufficient access to appropriate levels of the State management to facilitate the decision-making process.
- Identifies risks, performs risk management, and monitors corrective actions to mitigate risks.

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Other States and Public Sector COTS Projects:
The following is a sampling of other states and public sectors which have provided the State Controller's Office with their experience and success from taking part in the process of a COTS project. The State Controller's Office has gained and is continuing to gain valuable information on these and other procurement and implementation efforts.

Commonwealth of Pennsylvania
In early 1999, the Commonwealth of Pennsylvania conducted two procurements to select Enterprise Resource Planning (ERP) software and a systems integrator to help state agencies manage their migration to a new ERP-based business information system. The project included Accounting, Procurement, Budgeting, Payroll, and Human Resources.

Pennsylvania selected a two or segmented procurement approach: Procurement 1 to select an ERP software suite, and Procurement 2 to select the System Integrator (SI) to implement the ERP software suite. The actual purchase of the ERP software was not made until Procurement 2. Procurement 1 was conducted in 1999-2000. The ERP software was selected and the contract was signed with SAP in the second quarter of 2000. In March 2000, Procurement 2 began and was completed in fall 2000. The System Integrator was selected and the contract was signed with KPMG in the fourth quarter of 2000.

The contract for software totaled $51.8 million. Costs were $29 million for the full suite of software, $11.2 million for a 3-year maintenance agreement, and $11.4 million for software consulting staff. The contract for implementation services totaled $112 million, with payments based upon completed tasks/deliverables. The total project cost is $163.8 million over 3 years.

Implementation will be a phased approach, beginning with wave one for Procurement, Budget and Accounting (including travel) in July 2002, then additional waves in October 2002 and January 2003, and a projected "big bang" rollout of HR/Payroll and Time Management in January 2004. Approximately 85,000 employees will be included in this process.

State of Arizona
Arizona conducted a single procurement for both the COTS software and a systems integrator. However, Arizona representatives stated that if they had to do it over again, they would have conducted separate procurements for software and the integrator. The reason cited was that separate procurements would have provided a broader selection for system integrators. The contract was awarded in January 2002 to Lawson as the software contractor and IBM as the system integrator. Work began on the implementation of the solution in January 2002.

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The project will be completed in two phases: (1) Core HR, Payroll, and Benefits; and (2) Full HR/Payroll, ESS, Manager Self-Service, workflows, and retirement of current systems. Go live date is scheduled for January 1, 2004.

Pro Rata and Certificates of Participation will fund the project. The project will cost $92.9 million over a 10-year period. The cost of software is $7.5 million, cost of hardware is $1.8 million, consulting is $18.4 million, and maintenance is $45.3 million. Arizona's customer base includes over 9,000 retirees and over 62,000 active employees from 100 state agencies, boards and commissions, and three state universities.

Department of Defense Medical Human Resources System-Internet (DMHRS-i)
DMHRS-i is using Oracle E-Business Suite 11i to integrate and enable Web applications from the Army, Navy and Air Force to be completed by 2005 at a cost of $50 million. Replacing service-unique systems, DMHRS-i will manage human resources for about 150,000 medical personnel from the services' entire military and civilian workforce. HR programs accounted for 60 percent of the Defense Health Plan budget, or about $12 billion, in 2001.

These benefits will come after an extensive implementation process, which is being managed by the Office of the Assistant Secretary of Defense for Health Affairs, Tricare Management Activity and RITPO with assistance from Oracle, Science Applications International Corp., Planned Systems International and ASM Research Inc., the prime integration contractor.

The Oracle product was selected from a field of competitors that included off-the-shelf software from PeopleSoft Inc., enterprise software from Lawson Software and systems built and maintained by the government.

The system is using core human resources management functions from the Oracle 11i suite, such as manpower and training, along with a self-service tool that allows users to electronically update personal information, submit timesheets and "sign up online for classes offered by their activity. The human resources applications have proved flexible enough to allow for configuration while still meeting the program stipulation of zero customization.

State of Tennessee
Tennessee chose Oracle Consulting to advise on architecture and installation as well as to provide training of Oracle9*i* Designer and Oracle9*i* Discoverer. The State of Tennessee chose Oracle9*i*AS and Oracle9*i* Developer Suite for several reasons. These two products met and exceeded the functional requirements set by the evaluation team. They supported J2EE-based applications; the integrated suites provided features that the state can use in the future. Tennessee was already an Oracle database customer,

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selecting Oracle9*i*AS and Oracle9*i* Developer Suite made sense from an integration perspective. Actual project cost information is not available.

U.S. Department of Defense (DOD)

U.S. Department of Defense (DOD) has licensed the PeopleSoft 8 Human Resources Management System (HRMS). This solution will provide personnel and payroll information to all branches of the U.S. military including the Army, Navy, Air Force, Marine Corps, Reserves, and National Guard. The human resources management and payroll system will serve 3.1 million military personnel located around the world. DOD's Defense Integrated Military Human Resource System (DIMHRS) will unify HR support for both active duty and reserve members of the armed forces. PeopleSoft's global, pure internet human resources management solution will enable DOD to consolidate its legacy HR applications and information systems into one system, enhancing service to military personnel and dramatically lowering the agency's administrative and maintenance costs.

With PeopleSoft's portal solution, DIMHRS will enable DOD to provide its military personnel with key HR information and services in such areas as benefits, payroll and pension using a standard web browser. In addition, PeopleSoft's internet applications will support the unique personnel requirements of each military branch, allowing individuals to access, view and respond to their unit's tailored information.

DOD is using PeopleSoft's suite of PeopleSoft 8 COTS human resources applications including payroll, benefits, time and labor, pension, and recruitment. In addition, DOD is deploying PeopleSoft's suite of collaborative self-service applications and workforce analytics solutions including Analysis Workbench, Rewards, and Scorecard. The DIMHRS solution was planned for implementation in 2002. However, they are currently doing a “fit gap” analysis and the next step is to go out for the system integrator. Actual project cost information is not available.

State of Ohio/Ohio Administrative Knowledge System (OAKS)

The final deliverable for the OAKS business needs analysis was completed on August 2002. The Business Case, produced by Deloitte Consulting, follows the Requirements document, Technical Solution Evaluation, and the Gap Analysis.

The OAKS Business Case calculated the likely costs for each enterprise resource planning (ERP) contractor solution recommended in the Technical Solution Evaluation: Oracle, PeopleSoft, and SAP. It also analyzed the costs and benefits associated with a large ERP implementation for the State of Ohio.

Costs evaluated included the expenses the state would be likely to incur in areas such as software and hardware acquisition, integration contractor costs, and ongoing maintenance costs. These costs were then compared to the benefits the state could realize by implementing OAKS. Benefits included both intangible improvements, such

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as increased efficiencies and better decision-making, and tangible improvements that would yield dollar savings. The Business Case also calculated the cost of continuing to operate the current administrative systems-that is, the cost the state would be likely to incur if it does not move forward with OAKS.

Input from a variety of sources was a critical factor in calculating both the costs and benefits for the Business Case. Agency IT personnel completed surveys describing the costs of maintaining stand-alone systems that could be replaced by OAKS. Hardware and software contractors provided approximate costs of acquiring appropriate hardware and software for OAKS, and implementation experts estimated the number of resources and level of effort required to implement each of the three ERP solutions. Subject matter experts on the OAKS team and within agencies provided data about current business processes to help with the estimation of the financial benefit of OAKS.

The two main conclusions that emerge from these activities are that the costs for the three ERP packages under consideration are similar and that OAKS has a compelling business case. Using the details from the Business Case and the other business needs analysis documents, the OAKS project team will spend months doing a final software evaluation in order to determine which package best meets the needs of the State of Ohio. Per Jennifer Leymaster, Financial Team Lead for Ohio's OAKS Project, anticipated costs for the software and integrator is approximately $150 million.

As of June 6, 2003, we learned that the OAKS has not yet selected a software contractor due to the project being suspended in March. It hasn't been cancelled, but due to difficulties balancing the states biennial budget, it has been put on hold. The program management office remains open and staffed with a skeleton crew. They hope that the suspension will be lifted early in the new fiscal year (begins July 1), but until that time, they are unable to release any RFPs.

State of CA - Department of Water Resources (DWR)

The DWR's project scope was to reduce unnecessary manual activities associated with completing business functions and to streamline business flow. DWR has 2,900 employees. DWR, via a two phased procurement, selected SAP and Deloitte Consulting. Modules include Financial Accounting (FI), Budget (TR/FM), Cost Accounting (CO), Materials Management (MM), Human Resources (HR) includes EE maintenance from hire to separation, Timekeeping and Training & Events tracking, Plant Maintenance (PM), Production Planning, Customer Billing (CARA). SAP R/3 V 4.5B (started with 4.0, then upgraded to 4.5A then to 4.5B – DWR decision). The implemented system provides complete support for all clients' financial, budget, procurement, costing and human resource functions. The implementation included Employee Self-Service (ESS) that allows all employee to access their human resources via the clients' Intranet. Cost equaled $8.6 million. The first implementation took place in July 1999 (HR) and all other modules were implemented in October 1999.

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Potential Software Contractor Candidates:

PeopleSoft

PeopleSoft offers: flexible client/server architecture, relational databases, graphical user interfaces, web-enablement, workflow processing, and email connectivity, and other emerging technologies. PeopleSoft's Human Resources for Education and Government application software also includes Payroll, Human Resources, Position Management, Benefits Administration, and Time and Labor modules.

States such as New York, Montana, Minnesota, Kansas, Massachusetts, and California Departments such as Health and Human Services Data Center, Health Services, CalPERS, Transportation, Judicial Council as well as other large public and private sector organizations have adopted the PeopleSoft HR/PR solution.

The 21st Century project team conducted an extensive evaluation of PeopleSoft HR/PR version 8.0 software in (1999-2000) against State business requirements. PeopleSoft provides the ability to tailor the software to meet state-level and departmental requirements while providing standardized core functionality for a large portion of the State's needs.

In the opinion of Gartner Group: PeopleSoft is ranked in the Leaders quadrant; it should be evaluated by all large service enterprises. Per Gartner Group DPRO-89838 dated April 2003 the insight states: PeopleSoft is an established provider of HR applications and an ERP II contractor providing enterprise applications supporting financials, supply chain management, and customer relationship management, each of which also targets specific vertical markets. PeopleSoft's HR applications include Human Resources, Benefits Administration, flexible spending account administration, pension Administration, Payroll, Resume Processing, Time and Labor, and stock Administration applications. Added self-service functions for employees and managers, along with strategic HR components, strengthen PeopleSoft's ability to provide recent innovations to its customers and to offer inherent integration with established implementation of PeopleSoft applications.

SAP

SAP offers: R/2, a mainframe application suite, and R/3, a client/server applications suite, to large and medium-size commercial, government, and educational organizations around the world. SAP software offers: personnel administration, time management, payroll, recruitment, position management, career management and benefits administration.

States such as Pennsylvania, Arkansas, Louisiana, as well as other large public and private sector organizations such as NASA, US Defense Logistics Agency and US Department of Education have chosen SAP HR/PR solution.

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The project team conducted an extensive evaluation of SAP HR/PR software (1999-2000) against State business requirements. SAP provides the ability to tailor the software to meet state-level and departmental requirements while providing standardized core functionality for a large portion of the State's needs.

In the opinion of Gartner Group: SAP remains the sole contractor in the challenger portion of the Magic Quadrant. SAP's history as a manufacturing-oriented ERP contractor means it has a less-established presence than Oracle or PeopleSoft in services industries. Per Gartner Group DPRO-90132 dated March 25, 2002 the insight states: SAP extends its HR applications beyond traditional, transaction-based HR functions like personnel administration, time management and payroll, to supporting strategic corporate functions like recruitment, career management and benefits administration. Business intelligence tools enable HR executive, line managers and executives to analyze data related to the enterprise workforce and evaluate workforce utilization as it related to key corporate objectives. SAP also provides role-based HR self-service functions for employees, line managers, corporate executives and applicants. Enterprises looking to replace their HR system with a new system should evaluate the new product's level of industry-specific support. Enterprises can expect that ERP II contractors like SAP will continue to leverage improved integration models and strike partnerships to provide specialty functionality as part of ERP II solution delivery.

Lawson

Lawson offers: Benefits Administration, Payroll, Absence Management, Personnel Administration, Position Management, Employee and Manager Self-Service, E-Recruiting, Employee and Manager Portal.

States such as State of Arizona and State of Michigan, as well as other large public and private sector organizations such as Safeway, McDonalds, Target and Johnson & Johnson have chosen Lawson HR/PR solution.

Lawson has the potential to compete with their HRM application, but an in depth review of their software against State requirements has not been made.

Per Gartner Group Magic Quadrant for 2002, Lawson Software moved from the Visionaries Quadrant to the Challengers Quadrant. It did well in terms of vision and execution of a vertical-market strategy for retail, healthcare and the public sector. In addition, it scored well in reporting/analytic, portal/self-service, technology and viability. However, Lawson lacked some advanced capabilities for total compensation management, Timekeeping, and travel and entertainment expense management. Its global vision is a work in progress, compared to the contractors in the Leaders Quadrant. With continued focus and execution on its vertical strategy, better definition

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of its global vision and improvement of its advanced capabilities, Lawson could move into the Leaders Quadrant.

Oracle

Oracle offers: a full suite of electronic business products, with an Internet-ready platform for building and deploying Web-based applications, a comprehensive suite of Internet-enabled business applications, professional services for help in formulating electronic business strategy, as well as in designing, customizing, and implementing electronic business solutions.

Department of Defense Medical Human Resources System-Internet (DMHRS-i), and the State of Tennessee have chosen Oracle software.

Oracle has the potential to compete with their HRM application, but an in depth review of their software against State requirements has not been made.

In the opinion of Gartner Group: Oracle is ranked in the Leaders quadrant because of its strong global presence and its track record, particularly in the public sector; it should be evaluated by all large service enterprises. Oracle's v.11.5.1 of Financials and HR (which is the core of its solution for services) has an improving track record for upgrades and new installations. Per Gartner Group DPRO-90124 dated April 21, 2003 the insight states: Oracle is continuing its evolution as an ERP II contractor. It has a product vision for intra-and inter-enterprise process integration and collaboration, and for an emerging vertical market focus. For HR, the contractor provides global support, incorporating national and local statutory HR requirements as part of its product development. Oracle provides support for Federal HR requirements as part of its vertical industry focus, but has only just begun investigating future support for complex billing functions for professional employment firms. Given Oracle's market clout, its experience in HR, added self-service functions, process integration support and global features, Oracle HRMS should be evaluated, along with its competitors, by large enterprises looking to enhance their established HR software implementations. Selecting Oracle HR, however, is contingent on the potential customer'' status as an established Oracle "shop" or on the customer's willingness to incur additional costs-in particular, cost associated with upgrading or adding middleware (application server) to support some of Oracle'' more advanced HR analytic and strategic decision-support tooling.

AMS

AMS offers: a COTS and custom-built solutions. The integrated IT solutions include Employee Self-Service, Position Management, Benefit Administration, Timekeeping, Payroll Management, Human Resources and Recruiting and Staffing. AMS specializes in government, they have worked on projects for several different government agencies such as: California Franchise Tax Board, EDD, DMV, CalPERS, California Board of

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Equalization, Stephen P. TEALE Data Center, CalTrans, Department of Consumer Affairs. AMS has past HR project experiences and served as both the SI and Software contractor for: New York City, Missouri, Alabama, Philadelphia and Iowa.

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Potential System Integrator Candidates:
The information below not only indicates each viable SI that has done business with the key software contractors, but also indicates the diversity with different software contractors. The SI's in this market research have implemented or are in the process of implementing several different software solutions.

Accenture
Accenture has experience in working with public and private sector organizations and has project experience with all leading software providers such as PeopleSoft, SAP and Oracle.

Accenture Implementing PeopleSoft:
Accenture has implemented several clients using PeopleSoft software such as: California Health Human Service Data Center, United States Department of Justice, State of New York, University of Michigan, Commonwealth of Massachusetts, United States Department of Defense and the United States Social Security Administration.

The project team conducted an extensive evaluation of PeopleSoft HR/PR version 8.0 software using Accenture as the Integrator (1999-2000) against State business requirements. PeopleSoft/Accenture provides the ability to tailor the software to meet state-level and departmental requirements while providing standardized core functionality for a large portion of the State's needs.

Accenture Implementing SAP:
Accenture has implemented several clients using SAP software such as: Defense Logisitics Agency, National Aeronautics and Space Administration, US IRS, and US Department of Navy – NAVSEA Command.

In Gartner's report "Americas 2002 SAP ERP External Service providers MQ, " Accenture is positioned in the Leaders quadrant.

Accenture Implementing Lawson:
Accenture has implemented Lawson software for the CIA. (Can not provide any further details, as this project is confidential.)

Accenture Implementing Oracle:
Accenture has implemented several clients using Oracle software such as: Chicago Public Schools, Consumer Health Products Company, U.S. Department of Justice, Equality and Law Reform-Ireland and EMC Corporation.

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Deloitte Consulting
Deloitte has experience in working with public and private sector organizations and has project experience with all leading software providers such as PeopleSoft, SAP and Lawson.

Deloitte Implementing PeopleSoft:
Deloitte has implemented several clients using PeopleSoft software such as: Lower Colorado River Authority (LCRA), Boeing, and Large Mid-Western Insurance Company.

Deloitte Implementing SAP:
Deloitte has implemented several clients using SAP software such as: City of San Antonio Texas, Los Angeles World Airports (LAWA), State of Arkansas, State of California Department of Water Resources (DWR), SMUD, Sacramento County, Greybar Electric, Multnomah County Oregon, Province of Manitoba, Chevron and Starbucks.

Deloitte Implementing Lawson:
Deloitte has implemented several clients using Lawson software such as: Montgomery County Schools, City of Dallas, Hillsborough County Florida, City of Dallas Texas, City of Virginia Beach and Schools.

The project team conducted an extensive evaluation of SAP HR/PR software using Deloitte as the integrator (1999-2000) against State business requirements. SAP/Deloitte provides the ability to tailor the software to meet state-level and departmental requirements while providing standardized core functionality for a large portion of the State's needs.

IBM
IBM has experience in working with public and private sector organizations and has project experience with all leading software providers such as PeopleSoft, SAP and Lawson.

IBM Implementing PeopleSoft:
IBM has implemented several clients using PeopleSoft software such as: Swiss Department of Defense (Swiss Army), General Motors, K-mart, and U.S. Department of Veteran's Affairs.

IBM Implementing SAP:
IBM has implemented several clients using SAP software such as: Global Entertainment Company (Disney) and Nestle Corporation.

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IBM Implementing Lawson:
IBM has implemented several clients using Lawson software such as: State of Arizona, State of Michigan, City of Greensboro, Hillsborough County Schools (Tampa), Fairfax County Schools, Atlanta Public Schools, University of Wisconsin.

Bearing Point, Inc. (formerly KPMG Consulting)
Bearing Point has experience in working with public and private sector organizations and has project experience with all leading software providers such as SAP, PeopleSoft, Lawson and Oracle.

Bearing Point Inc. Implementing SAP:
Bearing Point has implemented several clients using SAP software such as: Commonwealth of Pennsylvania, Imperial Irrigation District, U.S. Department of the Navy, and NAVAIR.

Bearing Point Inc. Implementing PeopleSoft:
Bearing Point has implemented several clients using PeopleSoft software such as: National Institutes of Health, Washington Mutual, University of Missouri, and U.S. Courts.

Bearing Point Inc. Implementing Lawson:
Bearing Point has implemented several clients using Lawson software such as: Albuquerque Public Schools, Universal Health Services, and Sara Lee.

Bearing Point Inc. Implementing Oracle:
Bearing Point has implemented several clients using Oracle software such as: Alcoa, Defense Medical Resource System, and University of Virginia.

CSC
CSC has experience in working with public and private sector organizations and has project experience with leading software providers such as SAP and PeopleSoft.

CSC implementing SAP:
CSC has implemented several clients using SAP software such as: United States Postal Service (not prime) and State of Louisiana (Civil Service system).

CSC implementing PeopleSoft:
CSC has implemented the following client using PeopleSoft software: State of Louisiana (Universities system).

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AMS

AMS has experience in working with public and private sector organizations and has project experience with Oracle software.

AMS Implementing Oracle:

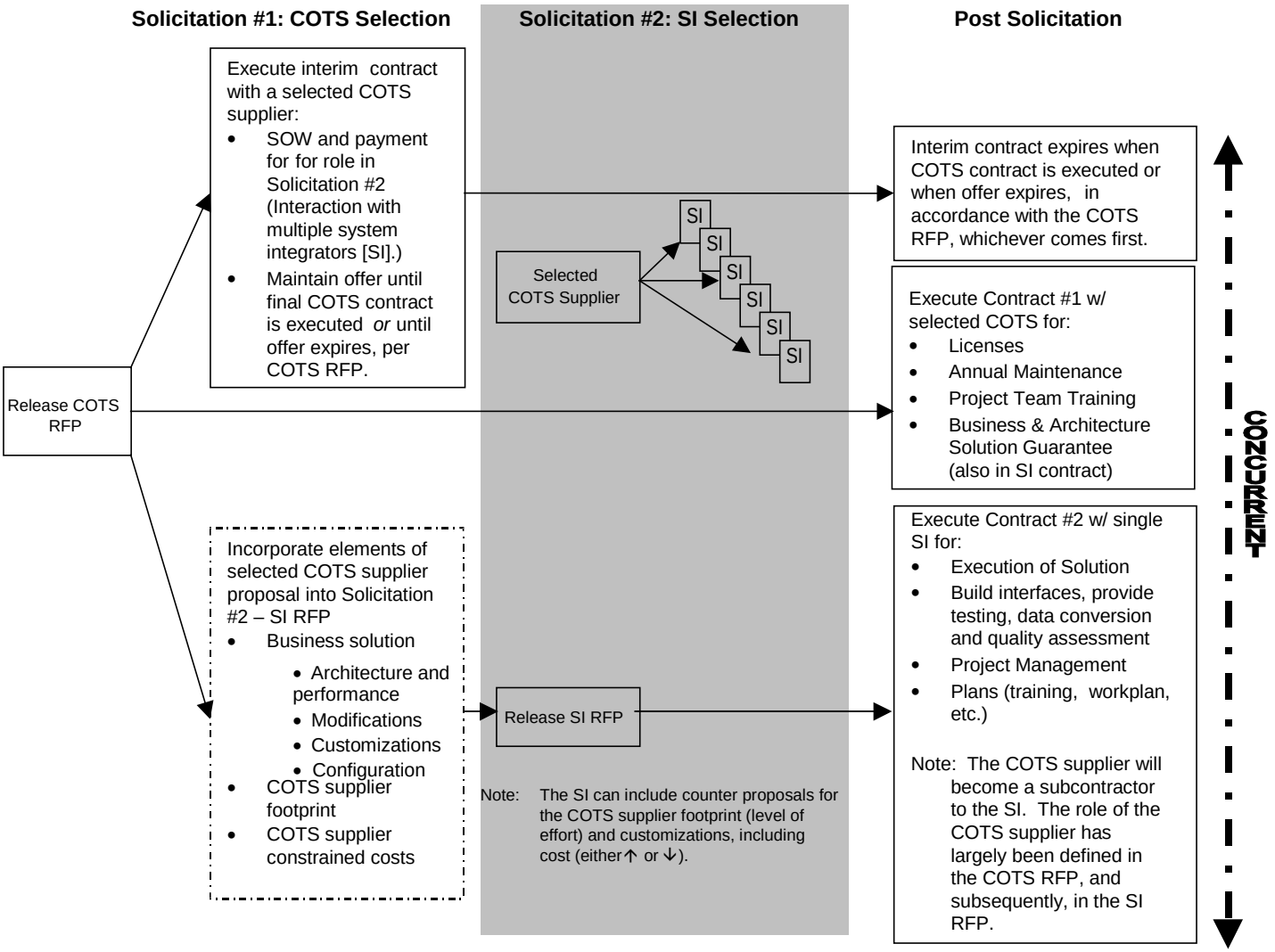
AMS has implemented this following client using Oracle software: Department of Defense Medical Human Resources System-Internet (DMHRSI).

AMS implementing AMS

AMS has implemented this following client using AMS software for: State of Iowa.

Attachment D

21st Century Project Solicitation Overview



Attachment E

21st Century Project Risk Mitigation Matrix

Risk #	Risk Event Description	Impacts Description	Risk Mitigation
1.	Adequate competition	Procurement strategies can limit the number of contractors	• Split procurement enhances software bidder pool by allowing software companies that would potentially be unable to partner with a major SI in a bundled procurement, to compete head-to-head with other software companies. • Split procurement provides greater bid competition for SIs in that one SI is not aligned with one software product as in a bundled procurement. As in previous bundled procurement efforts, the competition was limited as the software companies partnered with a SI to the exclusion of other SIs that have implemented the software product.
2.	Cost of project	High costs could result in non-award of a contract	• Split procurement forces software contractors and SIs to compete directly against each other, thereby, reducing the cost of the bid. Competitive bidding will provide incentive to lower costs. • Increased State staff participation within the life cycle of the project will, likewise, contain costs. • Timing of this solicitation occurs during a time of limited business opportunities for participating bidders, therefore, the bid price will be more competitive. • 50% of the bid evaluation is for cost, which elevates the importance of competitive costs for the award of the contract. • The procurement allows bidders to leverage existing hardware housed at the Teale Data Center within their solutions.
3.	Extended procurement timeframe	Software contractor backs out of contract Technology changes	• The State and the software contractor will sign an interim contract binding the contractor's proposal and costs until the final contract is signed. • The COTS Software bidder's response to technical architecture requirements will be evaluated based on the following desired attributes: - utilizes industry and open standards to support interoperability and connectivity. - fits in the COTS software bidder's long range support strategy. - lexibility that allows for scaling up and down to best meet system performance needs and scaling out to accommodate specialized capabilities. - adheres to industry and open standards without the use of proprietary extensions. - provides proof of certification across multiple technical platforms.
4.	Guarantee COTS costs until final contract	Software contractor backs out of contract Market changes	• The State and the software contractor will sign an interim contract binding the contractor's proposal and costs until the final contract is signed.

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21st Century Project Risk Mitigation Matrix

Risk #	Risk Event Description	Impacts Description	Risk Mitigation
5.	Accountability for delivery of proposed solution	Could result in lack of clarity in defining responsibility for the resolution of problems.	•The State will hold the selected software bidder accountable to perform and deliver all solution components, services, and declarations specified in the software bidder responses and incorporated into the contract between the State and the selected SI. • The SI RFP requirements will establish the responsibility of the prime. • COTS solution is incorporated in SI RFP. • The SI as the prime will be accountable for subcontractor duties provided by the software contractor as with any subcontractor agreement.
6.	Equity in bid process	Potential for favoritism during selection of SI vendor.	• Software contractor contract will include monies for them to provide needed bid information to the SI bidders. By hiring the software contractor to provide information, the State controls the access and insures that all SI bidders receive the same information.
7.	Financing Plan	Increased costs/delayed payments	• 50% of the bid evaluation is for cost, which elevates the importance of competitive costs for the award of the contract. 50% cost evaluation will ensure a competitive financing plan. • The State recognizes that there will be some costs associated with vendor financing.
8.	Contract Administration	Dual contracts	• Contractual agreements are clearly defined (i.e., software, software licenses, annual maintenance fees, and the cost of project team software training).